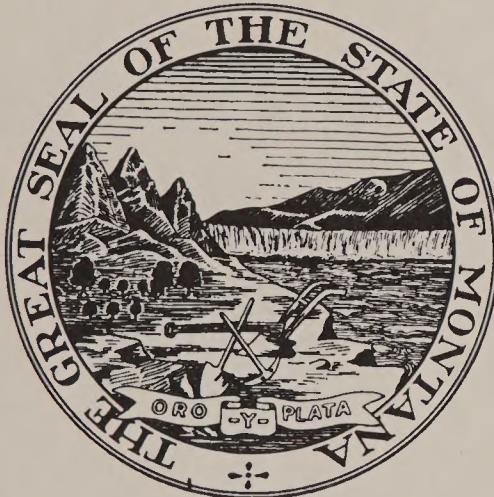


# **MONTANA TEACHERS' RETIREMENT SYSTEM**

**HANDBOOK  
OF  
INFORMATION**

**January 1, 1974**



## **OFFICE LOCATION**

**The Teachers' Retirement System Building  
1500 Sixth Avenue  
Helena, Montana 59601  
406/449-3134**



## THE TEACHERS' RETIREMENT BOARD

<u>MEMBER</u>	<u>TERM EXPIRES</u>
JAMES N. DENNEHY, Chairman Teacher, Butte	July 1, 1974
LORENCE B. SIMONSEN ..... Superintendent, Richey	July 1, 1975
JAMES E. BURKE ..... Realtor, Livingston	July 1, 1976
J. WILLIAM KEARNS, JR. .... Banker, Townsend	July 1, 1977
DOLORES COLBURG ..... State Superintendent of Public Instruction	ExOfficio

## ADMINISTRATIVE OFFICERS

OWEN L. MORRIS, JR. .... Executive Secretary  
F. ROBERT JOHNSON.....Asst. Executive Secretary

## FOREWORD

The Montana Teachers' Retirement System was established by state law in 1937. Since its initial enrollment of 3,367 members, the System has grown to its present size of over 12,500 members and over \$84,000,000.00 of assets. In addition, over 3,000 members and beneficiaries are currently receiving benefits of over \$5,600,000 each year.

The benefits provided by the System are jointly funded by each member and his employer. Since 1937, the member's contribution rate has been 5 per cent of his salary. Effective July 1, 1973 the rate will be 5 1/8%.

Over the years many changes and improvements have been enacted through legislation. In order to maintain the actuarial soundness of the System, the employer's contribution rate has increased with each major improvement. The current employer's rate is 5 1/4% of the member's salary.

## TABLE OF CONTENTS

Administration .....	1
Membership .....	3
Exemption from Membership .....	4
Contributions .....	4
Interest Credits and Charges .....	5
Vested Right .....	5
Benefits .....	6
(a) Final Average Salary .....	6
(b) Creditable Service.....	6
(1) Membership Service .....	6
(2) Prior Service .....	6
(3) Military Service .....	7
(4) Out-of-State Teaching Service	7
(5) Service While on Leave .....	8
(6) Repayment of Withdrawals ...	8
(7) Transfer of Membership.....	9
(c) Retirement Benefits .....	9
(d) Post Retirement Benefits .....	10
(e) Disability Benefits .....	10
(f) Death Benefits .....	11
(g) Optional Forms of Benefits .....	12
Benefit Tables .....	15
Refunds .....	19
Social Security Coverage .....	19
Tax-Deferred Annuity Program .....	20
Taxation of Benefits .....	26
Questions and Answers .....	28

## ADMINISTRATION

The governing body of The Teachers' Retirement System of the State of Montana is the Retirement Board whose names are listed on page i of this booklet.

The Board is composed of the Superintendent of Public Instruction, two members appointed from the teaching profession who are members of the System, and two persons appointed as representatives of the public. The four appointed members serve four-year terms.

The Board employs administrative officers and a staff to conduct the business of the System.

The Attorney General acts as legal advisor to the System.

The State Investment Board invests the funds of the System in various securities permitted by law. These investments are segregated from other state funds. The State Treasurer is the custodian of the securities owned by the System, and of the collected Retirement System moneys.

The powers and duties of the Retirement Board are as follows:

- (1) Establish rules and regulations necessary for the proper administration and operation of the Retirement System,
- (2) Elect a chairman from its membership,
- (3) Appoint a secretary who may be one of its members,
- (4) Employ technical or administrative employees who are necessary for the Retirement System,
- (5) Approve or disapprove all expenditures necessary for the proper operation of the Retirement System,
- (6) Keep a record of all its proceedings which shall be open to public inspection,

- (7) When the Retirement Board deems it necessary, designate a medical board to be composed of three physicians who are not eligible to participate in the Retirement System to investigate and report to the Retirement Board on all matters related to the administration of the Retirement System.
- (8) Keep in convenient form that data which is necessary for actuarial valuation of the various funds of the Retirement System and for checking the experience of the Retirement System,
- (9) Designate an actuary to assist the Retirement Board with the technical actuarial aspects of the operation of the Retirement System, which shall include establishing mortality and service tables and making an actuarial investigation at least once every five years into the mortality, service, and compensation experience of the members and beneficiaries of the Retirement System,
- (10) Prepare an annual valuation of the assets and liabilities of the Retirement System,
- (11) Determine the eligibility of a person to become a member of the Retirement System,
- (12) Prescribe a form for membership application which will provide adequate and necessary information for the proper operation of the Retirement System,
- (13) Adopt policies for the determination of creditable service in the Retirement System implementing the following guidelines:
  - (a) One year of creditable service shall be awarded for each year of full-time service, outside vacation periods, but no more than one year of creditable service during the same school fiscal year.

- (b) A proportion of a year's creditable service shall be allowed for part-time service. An equitable proportion of a year's creditable service shall be awarded for part-time service.
  - (c) Not more than one month of creditable service shall be awarded for one or more continuous months of absence without pay.
- (14) Grant retirement, disability and other benefits under the provisions of Section 75-6208, R.C.M. 1947,
- (15) Annually determine the rate of regular interest as prescribed in Section 75-6206, R.C.M. 1947,
- (16) Establish and maintain the funds of the Retirement System in accordance with the provisions of Section 75-6207, R.C.M. 1947; and
- (17) Perform such other duties and functions as are required to properly administer and operate the Retirement System.

## MEMBERSHIP

Membership in the Retirement System is compulsory. Excuse from membership can be applied only to a person who teaches less than six weeks during the absence of a regular teacher.

Membership applies to all persons employed as teachers, librarians, physical education directors, school nurses, principals, vice-principals, supervisors, superintendents, county superintendents of schools, and any other member of the teaching or professional staff of any public school elementary school or high school in the State of Montana, and any member of the administrative, instructional or scientific staff of the units of the University of Montana. It also applies to any person employed in the office of, or by, the State Superintendent of Public Instruction in duties pertaining to instructional services, and

any member of the instructional staffs of various state custodial institutions.

The Retirement Board decides cases in doubt.

## **EXEMPTION FROM MEMBERSHIP**

At the time of passage of the original law in 1937 and its later amendments to admit the University System, a teacher was permitted to choose membership or non-membership. In each case the period of option lasted only three months. Those exercising the option of non-membership are the only teachers exempt from membership. A list of these teachers is maintained at the Retirement Office.

## **CONTRIBUTIONS**

### **MEMBER'S SHARE**

Five and one eighth (5 1/8) percent of your monthly salary is deducted by your employer and is sent to the Retirement System to be credited to your individual account. This deduction is not required if you have completed 35 years of service and are over age 60. However since only those salaries for which the full contribution rate has been paid may be used for computing benefits, you may wish to have this deduction continued. The membership fee of one dollar was discontinued effective July 1, 1973.

### **EMPLOYER'S SHARE**

Your employer pays an amount equal to 5 1/4 per cent of your salary to the Retirement System. This contribution is not allocated to the member but is placed in a fund which provides that portion of your benefit not funded by your retirement account.

The employer is not excused from paying if the member has completed 35 years of service and is over age 60, however, no employer contribution is required on salaries paid exempt teachers.

## **INTEREST CREDITS AND CHARGES**

Interest is computed on each monthly balance at the current rate of 5 1/2 per cent, compounded annually. The interest rate is not fixed by law but is set by the Board annually in direct relation to the interest earnings of the System.

Interest on the repayment of withdrawals and on the purchase of out-of-state service will be charged after July 1, 1971.

On redeposit of withdrawals, interest will be charged if not paid before July 30, 1972 and will accrue from July 1, 1971 or from the date of withdrawal if it was after July 1, 1971.

On purchases of out-of-state service, interest will accrue from July 1, 1971 or from the date you became eligible to purchase this service if after July 1, 1971.

If payment for redeposit of withdrawals or purchase of out-of-state service is made before June 30 of the fiscal year in which interest began to accrue, the interest will not be charged.

The chargeable rate of interest will be the same rate that is set by the Board to be credited to your retirement account.

## **VESTED RIGHT**

You have a vested right in the Retirement System after the completion of 5 years of service in Montana for which contributions have been paid. With a vested right, you are entitled to retirement, disability and death benefits as described below, if you are otherwise qualified.

If you cease to be employed in a position which would qualify you for membership in the System, you will retain your vested right provided you do not withdraw your contributions from the System.

## BENEFITS

The Teachers' Retirement System provides not only retirement benefits but also substantial death and disability benefits. The formula from which these three benefits are calculated is:

$$\text{Annual Benefit} = \frac{\text{creditable service}}{70} \times \text{final average salary}$$

(this annual benefit will be paid in 12 equal monthly installments).

The formula is independent of age, sex, and the amount of your retirement account, and depends only on your creditable service and final average salary which are determined as follows:

Final average salary is the average of your 3 highest consecutive years of earnings upon which contributions have been paid.

If your employment ceases during a school term, you may contribute 5 1/8 per cent of the unearned portion of your contract salary if you wish to use that salary in determining your final average salary.

Creditable service can be obtained from seven sources. It will generally be to your advantage to obtain as much credit as possible from each of these sources. The maximum creditable service allowable is 35 years, however, credit is given for all service prior to age 60.

### (1) Membership Service

Membership service consists of all teaching service in Montana since 1937 for which contributions have been paid and which remain on deposit. As noted earlier, 5 years of such service gives you a vested right in the System.

### (2) Prior Service

Prior service includes all teaching in Montana prior to September 1, 1937, the date of establishment of the System. Credit for this service can be obtained at no cost to you provided you have a vested right. Verification of this service is required; please request forms from this office.

### **(3) Military Service**

Active service in the Army, Air Force, Navy, Marines, Merchant Marine or Red Cross during World War II from October 1940 through June, 1947 and the Korean conflict from June, 1950 through January, 1955 may be credited as prior service without cost provided you have a vested right. In order to receive credit for this service, you must provide this office with a copy of your military papers showing your dates of entry on active duty and separation from service.

Up to two years of active military service not performed during the above periods may be purchased upon completion of five years membership service if you deposit with the system an amount equal to ten and three eights per cent (10 3/8%) of your first full year's teaching salary earned in Montana following the active service, for each year purchased. Interest may be charged on purchase of this service.

### **(4) Out-of-State Teaching Service**

You may be credited with a minimum of 5 years out-of-state service, provided such service would have been acceptable under the provisions of the law if such service were performed in Montana, and if you deposit with the System 5 per cent of your first full year's salary after returning to Montana for each year you wish to receive credit. To be eligible to purchase out-of-state service you must have 5 years of Montana service following the out-of-state service. If you were employed in Montana prior to July 1, 1967 and have not withdrawn your account, you may purchase up to 10 years out-of-state teaching credit provided you have 10 years of Montana service after the out-of-state service. Interest may be charged on purchases of this service. (see "Interest Credits and Charges.")

## **(5) Service While on Leave**

You may purchase up to two years service while on leave conditional upon your having been a member prior to your leave and upon completing five (5) years of active membership in Montana subsequent to your return, provided you deposit with the system an amount equal to ten and three-eights per cent (10 3/8%) of your first full year's teaching salary following your return for each year purchased. Interest may be charged on the purchase of this service.

Those members joining the system after July 1, 1973 may not exceed a total of five (5) years creditable service for out-of-state service, military service or service while on leave.

## **(6) Repayment of Withdrawals**

If you were a member of the System and withdrew your contributions on one or more occasions, you may redeposit the amounts withdrawn and receive credit for the service represented. All withdrawals must be redeposited before credit can be reinstated. You must be a member of the System to redeposit previous withdrawals. Should you desire to repay amounts previously withdrawn, write to this office for the proper form. After the form has been completed and returned to the System, you will be notified of the redeposit required and the service that will be reinstated after completed payment. Interest may be charged on redeposits. (See "Interest Credits Charges").

If a previous member who has withdrawn his contributions returns to teaching, his membership date will be the date on which he returns to teaching although he may redeposit amounts withdrawn and receive credit for the years of his previous membership. His rights and privileges will be based upon the retirement law in effect on his date of membership.

## **(7) Transfer of Membership**

If you cease teaching and take a position covered by The Public Employees' Retirement System, you may transfer your retirement coverage from The Teachers' Retirement System to The Public Employees' Retirement System, or vice-versa. Upon application to the system in which your account is maintained, your account will be transferred from the other system.

## **RETIREMENT BENEFITS**

If you have ceased teaching in Montana, you may apply for retirement benefits provided:

- (1) You have a vested right in the System.
- (2) You have attained at least age 55. Normal retirement age is 60, and retirement is compulsory on the first day of September following your 70th birthday, unless you are a member of the University System and extension of your service has been recommended by the President of the unit to the Board of Regents. In this case you cannot contribute further to the System nor receive any additional retirement credits beyond the year in which you attain age 70.
- (3) Any member who has completed five (5) years of creditable service, and attained age fifty five (55) may retire from service and be eligible to an early retirement allowance at a reduction of one-half of one per cent (.5%) multiplied by the number of months which the retirement date precedes the date on which he would have retired had he attained sixty (60) years of age or had he completed thirty-five years of creditable service.

The retirement benefit is determined by the formula:

$$\text{Retirement Benefit} = \frac{\text{creditable service}}{70} \times \text{final average salary}$$

The minimum benefit is \$2400.00 with 35 years of service and a proportionate reduction for lesser service. This benefit will be payable during your lifetime (Normal Form, see Table A). Other options may be elected as described later.

## **POST RETIREMENT BENEFITS**

On July 1, 1974 and on July 1, 1975, every beneficiary receiving a retirement allowance shall be entitled to an increase in his monthly retirement allowance of one-fourth of one per cent (.25%) multiplied by the number of months he has been retired during the preceding fiscal year.

As a retiree, you may return to teaching on a temporary or part-time basis without jeopardizing your benefits provided you do not earn over 1/4 of your final average salary during each school term. If you earn in excess of this amount, your benefit will cease following the month in which your earnings exceeded 1/4 of the final average salary. Your benefits will resume upon written notice to the retirement office that you have ceased teaching.

You are not limited to the amount you earn in any employment that would not qualify you as a member of the System.

## **DISABILITY BENEFITS**

If you become disabled and cannot continue to teach, you may be eligible for disability benefits provided:

- (1) You have a vested right in the System and have not attained age 60.
- (2) You were an active member at the time of your disability.

- (3) You are declared physically or mentally incapacitated for the further performance of your duties, and that such disability is likely to be permanent. A physician's statement is required.
- (4) The Retirement Board has approved the disability application.

The effective date of the disability benefit will be the first of the month following the date of disability. The benefits will continue throughout the continuance of the disability.

The disability benefit is determined by the formula:

$$\text{Disability Benefit} = \frac{\text{creditable service}}{70} \times \text{final average salary}$$

The minimum disability benefit will be 1/4 of the final average salary. This benefit will be payable during your lifetime (Normal Form) while disabled. However, in the event of your death prior to receiving benefits equal to your retirement account, the balance would be payable in a lump sum to your beneficiary. Optional forms of payments may be elected as described later.

If you are receiving disability benefits, you may return to employment provided your earnings do not exceed your final average salary, in which event your disability benefits will cease. If your earnings are less than your final average salary, the disability benefits will be adjusted such that in no event will your disability benefits plus earnings exceed your final average salary.

From time to time the Retirement Board may require a physician's certification of your continued disability.

## DEATH BENEFIT

If an active member dies, whether or not he had a vested right, his beneficiary may elect to receive a

lump sum refund of his personal contributions plus interest. If the member had a vested right, his beneficiary may elect to receive, in lieu of the refund, a survivor's benefit.

The effective date of the survivor's benefit will be the first of the month following the date of the member's death.

The survivor's benefit is determined by the following formula with adjustment for the age of the beneficiary in relation to the member's age at death. If the beneficiary is the older, the amount will be larger; if the beneficiary is the younger, the amount will be less:

$$\text{Survivor's Benefit} = \frac{\text{creditable service}}{70} \times \text{final average salary}$$

This benefit will be payable during the beneficiary's lifetime and cease upon his death. No optional forms of payment are available.

In addition to this benefit, each surviving child of a deceased member with a vested right will receive a child's benefit of \$50.00 a month until the child has attained age 18. The last payment will be made in the month in which age 18 is attained.

If a member was active within one year of his death, and has a vested right, his beneficiary will receive a five hundred dollar (\$500.00) death benefit in addition to all other benefits payable.

#### **OPTIONAL FORMS OF RETIREMENT BENEFITS**

There are many forms in which you may elect to receive your retirement or disability benefits. Once the benefit is in effect, the form elected is permanent and cannot be changed. Therefore, it is important that a careful study be made prior to retirement regarding your future financial commitments. The staff of The Teachers' Retirement System is available to assist as much as possible in making the best decision.

There are several facts to consider regarding the optional forms available to you:

- (1) The survivor's benefit described earlier are available only to active members.
- (2) The amount of your monthly retirement benefit will depend upon the optional form you elect. Usually the largest amount is payable under the Normal Form which is the basic formula illustrated earlier. Under the Options the amount of the reduced benefit will depend on both your age and your beneficiary's.
- (3) Estimates of the amount payable under each of the options can be requested from this office. Please provide your beneficiary's age as well as your current salary.

#### **NORMAL FORM: Life Only Annuity**

This benefit will be payable during your lifetime. In the event of your death prior to receiving benefits equal to your account balance at retirement (your contributions plus interest) the remainder will be refunded to your beneficiary.

#### **OPTION A. Joint And Full To Beneficiary**

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will continue to receive the same amount during the remainder of his lifetime.

#### **OPTION B: Joint And One-Half To Beneficiary**

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living will receive 1/2 of that benefit during the remainder of his lifetime.

#### **OPTION C: Joint And Two-Thirds To Beneficiary**

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will receive 2/3 of that benefit during the remainder of his lifetime.

#### **OPTION D: Joint And One-Half To Survivor**

This benefit will be payable while both you and your beneficiary are living. Upon the death of either, the survivor will receive 1/2 of that benefit during the remainder of his lifetime.

#### **OPTION E: Joint And Two-Thirds To Survivor**

This benefit will be payable while both you and your beneficiary are living. Upon the death of either, the survivor will receive 2/3 of that benefit during the remainder of his lifetime.

#### **OPTION F: Special Plan**

Any actuarial equivalent mutually agreed upon between the member and the Retirement Board.

TABLE A illustrates the benefits payable under the "Normal Form" of retirement. Table B illustrates the benefits payable under Options A,B,C,D, and E and are expressed as percentages of the "Normal Form."

Example of monthly benefit under Option C. (Joint and Two-thirds to Beneficiary):

(1) Years of Service	30
(2) Final Average Salary	\$8,000.00
(3) Member's age	60
(4) Beneficiary's age	57
(5) Monthly benefit under "Normal Form"	
(Table A)	\$285.71
(6) Percentage of Normal Form (Table B, Option C)	85.81%
(7) Monthly benefit under Option C [(5) x (6)]	\$245.17

In determining the difference between the member's age and the beneficiary's age, the age nearest birthday is used. Any difference 6 months or over is considered a full year.

Table A

## ILLUSTRATION OF MONTHLY BENEFITS

Option No. 1 — Life Only

YEARS OF SERVICE	►	4,000	5,000	6,000	7,000	8,000	9,000	10,000	11,000	12,000	13,000	14,000	15,000
5	23.81	29.76	35.71	41.67	47.62	53.57	59.52	65.48	71.43	77.38	83.33	89.29	
10	47.62	59.52	71.43	83.33	95.24	107.14	119.05	130.95	142.86	154.76	166.67	178.57	
11	52.38	65.48	78.57	91.67	104.76	117.86	130.95	144.05	157.14	170.24	183.33	196.43	
12	57.14	71.43	85.71	100.00	114.29	128.57	142.86	157.14	171.43	185.71	200.00	214.29	
13	61.90	77.38	92.86	108.33	123.81	139.29	154.76	170.24	185.71	201.19	216.67	232.14	
14	66.67	83.33	100.00	116.67	133.33	150.00	166.67	183.33	200.00	216.67	233.33	250.00	
15	71.43	89.29	107.14	125.00	142.86	160.71	178.57	196.43	214.29	232.14	250.00	267.86	
16	76.19	95.24	114.29	133.33	152.38	171.43	190.48	209.52	228.57	247.62	266.67	285.71	
17	80.95	101.19	121.43	141.67	161.91	182.14	202.38	222.62	242.86	263.09	283.33	303.57	

	▼	4,000	5,000	6,000	7,000	8,000	9,000	10,000	11,000	12,000	13,000	14,000	15,000
18		85.71	107.14	128.57	150.00	171.43	192.86	214.28	235.71	257.14	278.57	300.00	321.43
19		90.48	113.10	135.71	158.33	180.95	203.57	226.19	248.81	271.43	294.05	316.67	339.29
20		95.24	119.05	142.86	166.67	190.48	214.29	238.09	261.91	285.71	309.52	333.33	357.14
21		100.00	125.00	150.00	175.00	200.00	225.00	250.00	275.00	300.00	325.00	350.00	375.00
22		104.76	130.95	157.14	183.33	209.52	235.71	261.90	288.10	314.29	340.48	366.67	392.86
23		109.52	136.91	164.29	191.67	219.05	246.43	273.81	301.19	328.57	355.95	383.33	410.71
24		114.28	142.86	171.43	200.00	228.57	257.14	285.71	314.29	342.86	371.43	400.00	428.57
25		119.05	148.81	178.57	208.33	238.10	267.86	297.62	327.38	357.14	386.90	416.67	446.43
26		123.81	154.76	185.71	216.67	247.62	278.57	309.52	340.48	371.43	402.38	433.33	464.29
27		128.57	160.71	192.86	225.00	257.14	289.29	321.43	353.57	385.71	417.86	450.00	482.14
28		133.33	166.67	200.00	233.33	266.67	300.00	333.33	366.67	400.00	433.33	466.67	500.00
29		138.09	172.62	207.14	241.67	276.19	310.71	345.24	379.76	414.29	448.81	483.33	517.86
30		142.86	178.57	214.29	250.00	285.71	321.43	357.14	392.86	428.57	464.29	500.00	535.71
31		147.62	184.52	221.43	258.33	295.24	332.14	369.05	405.95	442.86	479.76	516.67	553.57
32		152.38	190.48	228.57	266.67	304.76	342.86	380.95	419.05	457.14	495.24	533.33	571.43
33		157.14	196.43	235.71	275.00	314.29	353.57	392.86	432.14	471.43	510.71	550.00	589.29
34		161.90	202.38	242.86	283.33	323.81	364.29	404.76	445.24	485.71	526.19	566.67	607.14
35		166.67	208.33	250.00	291.67	333.33	375.00	416.67	458.33	500.00	541.67	583.33	625.00

Table B

**OPTIONAL BENEFITS**  
Expressed as Percentages of Normal Form

Difference in Ages	OPTION A	MEMBER OLDER THAN BENEFICIARY			MEMBER YOUNGER THAN BENEFICIARY			OPTION D	OPTION E
		OPTION B	OPTION C	OPTION D	OPTION A	OPTION B	OPTION C		
0	82.97	90.69	87.69	100.00	93.60	82.97	90.69	87.96	100.00
	82.02	90.12	87.25	98.63	92.39	83.91	91.25	88.67	101.43
2	81.07	89.55	86.53	97.32	91.22	84.84	91.80	89.36	102.93
3	80.12	88.96	85.81	96.06	90.09	85.76	92.34	90.03	104.49
4	79.18	88.38	85.08	94.86	88.98	86.66	92.86	90.70	106.12
5	78.23	87.79	84.35	93.70	87.91	87.54	93.36	91.34	107.80
6	77.30	87.20	83.63	92.59	86.86	88.40	93.84	91.95	109.54
7	76.38	86.61	82.90	91.52	85.84	89.22	94.30	92.55	111.33
8	75.46	86.01	82.18	90.48	84.85	90.02	94.75	93.11	113.17
9	74.56	85.43	81.47	89.49	83.89	90.78	95.17	93.66	115.07
10	73.67	84.84	80.76	88.53	82.96	91.51	95.57	94.18	117.04
11	72.80	84.26	80.06	87.61	82.05	92.21	95.95	94.67	119.09
12	71.95	83.68	79.37	86.72	81.16	92.87	96.30	95.13	121.18
13	71.11	83.11	78.69	85.86	80.30	93.49	96.64	95.57	123.32
14	70.29	82.55	78.02	85.03	79.47	94.08	96.95	95.97	125.50
15	69.49	82.00	77.36	84.23	78.67	94.62	97.24	96.35	127.73

Difference in Ages	OPTION A	OPTION B	OPTION C	OPTION D	OPTION E	OPTION A	OPTION B	OPTION C	OPTION D	OPTION E
16	68.71	81.45	76.71	83.46	77.89	95.13	97.50	96.70	129.99	115.84
17	67.95	80.92	76.08	82.72	77.13	95.60	97.75	97.02	132.29	117.28
18	67.22	80.40	75.46	82.01	76.40	96.03	97.97	97.32	134.58	118.70
19	66.51	79.88	74.86	81.33	75.70	96.42	98.18	97.58	136.87	120.08
20	65.82	79.39	74.28	80.68	75.03	96.77	98.36	97.83	139.11	121.41
21	65.15	78.90	73.72	80.06	74.38	97.10	98.53	98.04	141.31	122.69
22	64.51	78.43	73.17	79.46	73.77	97.39	98.68	98.24	143.45	123.91
23	63.89	77.97	72.64	78.90	73.17	97.65	98.81	98.42	145.54	125.09
24	63.30	77.53	72.12	78.36	72.60	97.88	98.93	98.58	147.58	126.22
25	62.73	77.10	71.63	77.85	72.06	98.09	99.04	98.72	149.56	127.30
26	62.18	76.68	71.15	77.35	71.53	98.29	99.14	98.85	151.49	128.33
27	61.65	76.28	70.69	76.88	71.03	98.46	99.22	98.97	153.37	129.33
28	61.14	75.89	70.24	76.43	70.55	98.61	99.30	99.07	155.20	130.28
29	60.65	75.51	69.81	76.01	70.09	98.75	99.37	99.17	156.98	131.19
30	60.19	75.15	69.40	75.59	69.65	98.88	99.44	99.25	158.68	132.06

## **REFUNDS**

If you are no longer employed in a position which would qualify you as a member of the System, you may request a refund of your personal contributions. Termination of a contract does not automatically qualify you for a refund; if you leave a school district for employment in another, you are not eligible for a refund.

Interest will be paid upon withdrawals after July 1, 1973.

If you are eligible and request a refund, you will be sent the necessary application form. No refund will be made until all contributions have been received from the employer.

If your account represents at least 5 years of service, you may wish to not withdraw. (See "Vested Right".)

## **SOCIAL SECURITY COVERAGE**

Most teachers in Montana have social security coverage. Benefits provided by The Teachers' Retirement System are independent of and in addition to any social security benefits you may be entitled to receive.

Information regarding social security benefits should be obtained from your local social security office.

# TAX-DEFERRED ANNUITY PROGRAM

## FOREWORD

In 1958 the Internal Revenue code was amended to permit certain tax-exempt employers to deduct a portion of an employee's salary to be contributed to a tax-deferred annuity contract. Sums so deducted were considered non-taxable to the employee at the time the deduction was made. In 1967, the Internal Revenue Service ruled that contributions on your behalf to a separate fund maintained by a state teachers' retirement system for the purchase of additional retirement benefits unrelated to the basic benefits may constitute contributions toward a tax-deferred annuity contract. The Teachers' Retirement System has established a separate fund for this purpose.

The tax-deferred annuity program is not a program of tax forgiveness, but rather it is designed to delay taxation on a portion of your current income until such time as benefits are received from the program.

## ELIGIBILITY

- (1) You must be an active member of the Retirement System.
- (2) The Board of Education, Board of Regents, or other governing body must have adopted an official resolution extending to its employees the opportunity to participate in this program.
- (3) You must enter into a "salary reduction agreement" with the governing board authorizing the board to reduce your salary by a stated amount. The contributions to the program must be made by the employer; it is not possible for you to make the contributions directly. You are not permitted to make more than one agreement with the same employer during the same tax year; however, you may be permitted to terminate the agreement for amounts not yet earned.

## **CONTRIBUTIONS**

- (1) The minimum amount which you may contribute is \$20 per payment.
- (2) The maximum amount which you may contribute will generally not be less than 12.40 per cent of your gross income. This is referred to as the exclusion allowance and is based upon a 16.67 per cent basic allowance less an adjustment for the contribution by your employer to the retirement program. Your exclusion allowance may be larger than 12.4 per cent since credit is allowed for past service with the same employer. To determine the maximum amount of your exclusion allowance, you should obtain the necessary forms from your employer or this office. If the amount of your contributions is in excess of the maximum exclusion allowance, your employer must deduct Federal income tax on the excess amount; therefore, the IRS has ruled that both you and your employer are responsible for determining the maximum exclusion allowance.

## **INTEREST**

Interest is credited each year on June 30 and is computed on each monthly balance. The current rate is 6 per cent, compounded annually. The interest rate is not fixed by law but is set by the Board annually in direct relation to the interest earnings of the System.

## **ADMINISTRATIVE EXPENSES**

There are no administrative charges or initiation fees required for participation in this program. The expenses are paid from investment income.

## **RIGHTS NON-FORFEITABLE**

Your rights under this program are non-forfeitable. There are no contingencies which would cause you to lose your rights to any benefits provided by your contributions. If you should elect

to discontinue your participation in the program or become employed in a position which would not qualify you as a member of the System, you may elect to leave your contributions in your account and continue to enjoy tax shelter on them. Your contributions would continue to earn interest and benefits would be payable at retirement age.

## BENEFITS

The amount of the benefits provided by your tax-deferred annuity program will depend upon your age at retirement, your account balance at retirement and the form of benefit payment which you elect. The benefits will be determined from actuarial tables approved by the Retirement Board. The optional forms of payment under the retirement program are available under the Tax Deferred Annuity Program. Typical examples of amounts payable and accumulated accounts are given at the end of this section.

## WITHDRAWALS

There are no loan provisions under this tax-deferred annuity program. Because of restrictions placed on the program by the Internal Revenue Service, it is not possible for a participant to receive a full or partial refund of his account. In the event you wish to discontinue your participation in the program, you may elect to receive a lump sum refund of your account balance including your personal contributions plus interest accrued to date.

## ADVANTAGES

- (1) The immediate advantage of participation in the tax-deferred annuity program is the reduction in current taxes.
- (2) Benefits will be taxable when received, but as a retired participant you will probably be in a lower tax bracket and will also enjoy tax exemptions which are not available to active participants.

- (3) This is a convenient means of building a retirement "nest egg" since the contributions are made automatically and regularly on a salary reduction basis with "before-tax" dollars.

## DISADVANTAGES

- (1) If a lump sum withdrawal of your account is made prior to retirement, the program will probably be at a tax disadvantage to you since the withdrawal will be wholly taxable as ordinary income during the year received. You may pay more taxes on your contributions than if they had been taxed initially since you will probably be in a higher salary bracket and the tax rates may have increased. The interest accrued will also be taxable.
- (2) The increasing trend of income taxes may cause a loss or at least a reduction of the tax advantage to you at retirement.

## TABLE I

### Monthly Payment at Retirement Per \$1,000 of Accumulated Contributions

**REFUND ANNUITY** — Benefits payable during your lifetime. Upon your death, balance of account will be payable to your beneficiary.

#### Retirement

<u>Age</u>	<u>Male</u>	<u>Female</u>
60	5.99	5.46
61	6.11	5.57
62	6.26	5.70
63	6.40	5.83
64	6.55	5.97
65	6.72	6.11
66	6.88	6.26
67	7.06	6.42
68	7.26	6.61
69	7.46	6.80
70	7.66	7.00

The above rates are based on the expectancy of life and an assumed interest rate of 4%. Each year a 13th check may be paid to adjust for any difference between the annual rate set by the board and the assumed rate of 4%.

TABLE II

Projected Account Balance at Age 60 and 65  
Assuming \$1,000 Annual Contributions

VARIOUS INTEREST RATES

AGE 60

Current

<u>Age</u>	<u>5¼%</u>	<u>5½%</u>	<u>5¾%</u>	<u>6%*</u>
25	95,138.77	100,251.36	105,676.74	111,434.78
30	69,362.88	72,435.48	75,664.49	79,058.19
35	49,405.51	51,152.59	52,971.24	54,864.51
40	33,953.23	34,868.32	35,812.13	36,785.59
45	21,989.07	22,408.66	22,837.56	23,275.97
50	12,725.64	12,875.35	13,027.06	13,180.79
55	5,553.29	5,581.09	5,609.02	5,637.09

AGE 65

Current

<u>Age</u>	<u>5¼%</u>	<u>5½%</u>	<u>5¾%</u>	<u>6%*</u>
25	128,429.58	136,605.61	145,368.51	154,761.97
30	95,138.77	100,251.36	105,676.74	111,434.78
35	69,362.88	72,435.48	75,664.49	79,058.19
40	49,405.51	51,152.59	52,971.24	54,864.51
45	33,953.23	34,868.32	35,812.13	36,785.59
50	21,989.07	22,408.66	22,837.56	23,275.97
55	12,725.64	12,875.35	13,027.06	13,180.79
60	5,553.29	5,581.09	5,609.02	5,637.09

\*Current crediting Rate

## **TAXATION OF YOUR BENEFITS**

Retirement, disability and death benefits payable under provision of the Retirement System are subject to Federal income tax laws. The information provided below is general and may not apply in your individual case. You should contact your attorney, accountant or local revenue office to obtain tax information regarding your benefits.

### **STATE TAXES**

The retirement law provides that any benefits accrued or accruing under the provisions of the Retirement System are exempt from any state, county or municipal tax of the State of Montana.

### **FEDERAL INCOME TAX**

All benefits, except those provided by your personal contributions, are subject to Federal income tax as ordinary income in the year received. Since your personal contributions have already been taxed, benefits provided by them are not subject to tax.

The Internal Revenue Department has two methods of determining the taxable benefits:

#### **(1) Three-year Cost Recovery Rule**

If the benefits received in the first three years equal or exceed your cost (total personal contributions), all benefits until they equal your cost are excludable from gross income. All benefits received thereafter are fully taxable as ordinary income. Most members will recover their cost within three years and this method will apply.

#### **(2) Regular Annuity Rule**

If the benefits received in the first three years are less than your cost, a portion of each benefit received during your lifetime will be excluded from your gross income. If this method applies, you should contact your local revenue office for their rules and schedules.

Additional tax exemptions may be available for disability benefits; again, you should contact your local revenue office for this information.

The tax treatment noted above applies only to the retirement program. Any benefits received under a tax-deferred annuity program are normally taxed in full since your contributions will usually have been made with "before-tax" dollars.

## QUESTIONS AND ANSWERS

### YOUR RETIREMENT ACCOUNT

(1) *May I borrow from my account?*

No, the retirement law has no provision for personal loans. Your account can be withdrawn only upon termination (see "Refunds").

(2) *Can my benefits be garnisheed?*

No, the retirement law provides that any benefits, accrued or accruing, are not subject to garnishment, execution or attachment.

(3) *If I had previously withdrawn my account and redeposited that amount, will the interest which I had forfeited be reinstated?*

Yes.

### SERVICE

(1) *What advantages are there in taking immediate steps to obtain credit for all service to which I may be entitled?*

(a) In the event of your death, the survivor's benefit will be based on the number of years which has been credited to your account at the time of your death. If you die prior to completing payment for out-of-state service or redeposit of withdrawals, the service represented by payments received prior to your death will be credited.

(b) If your previous withdrawals are redeposited, the years represented may be used to determine your vested right.

(c) Interest will accrue each year the purchase of out-of-state service and redeposit of withdrawals is delayed.

- (2) *Can I receive credit for military service during the Viet Nam War?*

You may purchase up to two years of military service performed after January 31, 1955. (see page 7).

- (3) *Can I receive credit for teaching service outside the United States or for service in a private school or institution?*

You may purchase up to two years of teaching service outside the United States or in a public school under the provisions of purchasable service while on leave (see page 8).

- (4) *If I have more than 35 years of credit, can I receive credit during the year I attain age 60?*

Yes, one year of credit can be received for the school term in which you attain age 60.

- (5) *If I have less than 35 years of credit when I attain age 60, can I receive credit for additional service?*

Yes, each additional year of service will be credited to your account until the maximum of 35 is attained.

#### AVERAGE ANNUAL SALARY

- (1) *May I use any out-of-state teaching salary in determining my final average salary?*

No, only salaries earned in Montana upon which contributions have been made can be used.

- (2) *May I include my summer teaching salary in determining my final average salary?*

Yes, any salaries earned under contract during the three-year averaging period can be used.

- (3) *May I include any remuneration which is not covered under my contract in determining my final average salary?*

No, only salaries earned under contract can be used.

## BENEFITS

- (1) *Are benefits paid to me automatically when I become eligible?*

No, you must request the proper application forms from this office.

- (2) *When should application forms be requested?*

You should notify this office at least 30 days prior to your retirement. Applications should be requested immediately in the event of your death or disability.

- (3) *When will I receive my benefit checks?*

The benefit checks are normally mailed the last business day of each month.

- (4) *Must I designate a beneficiary of my account?*

No, but it is recommended because in the absence of a designated beneficiary any death benefit will be payable to your estate and, as such, will be subject to estate taxes.

- (5) *May I designate more than one beneficiary?*

Only if you elect payments under the Normal Form retirement. If an option is elected at the time of application for benefits, only one beneficiary can be designated.

## TAX-DEFERRED ANNUITIES

- (1) *How may I participate in the tax-deferred annuity program?*

Application must be made at the school where you are currently employed. You will be requested to sign a "salary reduction agreement" with your employer.

- (2) *May I transfer my tax-deferred account to my retirement account for the redeposit of previous withdrawals or the purchase of out-of-state service?*

No, only a lump sum refund payable to you is available if you discontinue your participation.

(3) *If I discontinue my participation, may I rejoin the program at a later date?*

Yes.

(4) *What becomes of my account in the event of my death?*

The balance of your account including interest accrued to the date of your death will be payable in a lump sum to your beneficiary.







Western Printing & Lithography—Billings, Montana

